

SECRET

NOTE OF A MEETING HELD IN NO.11 DOWNING STREET ON THURSDAY
26 AUGUST 1982 AT 16.30

Those present: Chancellor of the Exchequer
Sir Douglas Wass
Sir Kenneth Couzens
Mr Burns
Mr Littler
Mr Turnbull
Mr Kerr
Mr H Davies

The Governor (Bank of England)
The Deputy Governor "
Mr Loehnis "

INTERNATIONAL FINANCIAL QUESTIONS

a) Argentina

1. The Governor thought our aim should still be a simultaneous reciprocal removal of the current restrictions. But the resignations of Senor Pastore (the Economy Minister) and Senor Cavallo (the Central Bank Governor) had made things more difficult. There was evidence that the hardliners in Buenos Aires who advocated repudiation of Argentina's foreign debts were gaining strength. The likelihood of achieving any successful linkage between the removal of the financial restrictions and other trading questions was now much reduced. It would be unfortunate if our refusal to unfreeze Argentinian assets were seen to be hindering international discussions of debt rescheduling. We might then be accused of contributing to a further hardening of the Argentinian position. For these reasons he saw advantage in trying to handle the financial problems separately. The Deputy Governor reported on a conversation with Mr Leland of the US Treasury. It was likely that there would be talks between the US and Argentina at Toronto. He had asked if we wished to make any proposals via the US.

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2. The Chancellor said that the Prime Minister remained concerned about the B Cal problem. B Cal were losing revenue of £9 million a year. They were effectively shut out of Chile as well as Argentina. But the Junta members handling our negotiations were the most hardline. She had therefore favoured linkage with the removal of restrictions on financial assets as this seemed to offer the only possibility of success. Mr Littler said that the Secretary of State for Trade took a similar line. But of course if the Argentine was not disposed to restore normal financial relationships the card was not useful. The Deputy Governor said the US view was that there was no chance of successful linkage on B Cal, and they and he were also doubtful about how much progress could be made on visible trade. It would be unwise to move from one unworkable linkage to another.

3. The Chancellor thought it important to agree a line before the Toronto meeting: we should also investigate alternative channels of negotiation, though he understood that Simone in Switzerland was unavailable, and the Prime Minister had doubts about Ulloa. The difficulty was that we ought to have something to show for a removal of the restrictions, particularly if it was unilateral. The Governor agreed. We should try first for a reciprocal deal, but a unilateral move would be preferable to finding ourselves in the position of appearing to be the people who prevented debt rescheduling.

b) Mexico

4. Mr Loehnis reported that the BIS assistance would not formally be announced until the deal had been approved by the Banco de Mexico board. Sir Kenneth Couzens said that the necessary procedure here - a Minute to Parliament - was in hand. The Governor said that although the negotiations had been satisfactory so far it needed to be understood that there were difficulties ahead. The exact scale of Mexico's need for funds was not yet established, and their Government would need to take tough measures against a very unpromising social and economic background.

extract with 7/5 PPS

extract with PPS-7/5

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c) The International Banking Scene (PM's seminar)

5. The Chancellor said that the Prime Minister was particularly concerned about recent developments, and the extent to which we had, or had not, foreseen them. Hence the seminar on Wednesday, 1 September. He hoped that it would concentrate on the future prospect, rather than being in the nature of an inquest. To try to ensure that it did we should prepare a resume of the history of the recent ad hoc problems and the way in which they had been brought to the Prime Minister's attention. We should also point out the possible relationship of pipeline sanctions to the problems of international indebtedness. Pressure on the Soviet Union could reduce her ability to support her mendicant clients in Eastern Europe. He was of the view that neither we, nor indeed the US, could afford to conduct paramilitary economic warfare against the Soviet Union. The Prime Minister was inclined to think that the pipeline should never have been agreed, but was concerned about the implications of US sanctions which affected existing contracts. At the seminar we should bring the more general arguments to her attention.

6. Sir Kenneth Couzens thought the key question was what would be squeezed by sanctions on the Soviet Union, would it be arms spending, or support for Eastern Europe, or the living standards of Soviet citizens? He was inclined to think it would be the latter. If so, it was hard to see how this helped us. There was also of course a serious risk of encouraging growth in protectionism, which would be inimical to our long-term interests. An argument we might put to the Prime Minister was that sanctions were damaging the Alliance for no good purpose. The Governor agreed. He had been impressed by Chancellor Schmidt's view on the pipeline and the economic importance of detente.

d) ECOFIN

7. The Chancellor noted that the Governor (and Mr Littler from the Treasury) would be going to the informal meeting at Copenhagen

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on 29 and 30 August. He thought it would be useful if they could take any opportunities that arose to refer to our views on the Budget problem. It was important not to give any impression that we thought the problem would go away of its own accord. The Governor agreed to co-ordinate a line with Mr Littler.

e) Joergensen Group

8. The Governor was concerned about the wisdom of providing sensitive numbers to this Group. He thought the danger of a breach of confidentiality was serious. And if we gave out figures on intervention to them we would undoubtedly be pressed by the TCSC. It was agreed that we should provide nothing that we really wished to keep secret. Assurances of confidentiality and aggregations could not be relied upon.

Howard Davies

H J DAVIES

Circulation: Those present
Mr Lavelle
Mr Carey.

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